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# "Good Faith" Trademark Infringement: The Ninth Circuit's Approach to the *Tea Rose-Rectanus Doctrine*

Roya Tabibi

*Boston College Law School*, [roya.tabibi@bc.edu](mailto:roya.tabibi@bc.edu)

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# “GOOD FAITH” TRADEMARK INFRINGEMENT: THE NINTH CIRCUIT’S APPROACH TO THE *TEA ROSE-RECTANUS* DOCTRINE

**Abstract:** In 2017, the United States Court of Appeals for the Ninth Circuit held in *Stone Creek, Inc. v. Omnia Italian Design, Inc.* that the “good faith” element of the *Tea Rose-Rectanus* doctrine, a common-law affirmative defense to trademark infringement, requires the junior user to have used the trademark without knowledge of the senior user’s prior use of the mark. This ruling echoed the Seventh Circuit’s similar finding in 1982 in *Money Store v. Harriscorp Finance, Inc.*, and the Eighth Circuit’s finding in 2001 in *National Association for Healthcare Communications, Inc. v. Central Arkansas Area Agency on Aging, Inc.* The Ninth Circuit decision deepened the split with the Tenth and Fifth Circuits, which ruled in 1991 and 2001, respectively, that knowledge is not dispositive of bad faith, but is merely one factor to consider in a good faith inquiry. This Comment argues that the Ninth Circuit correctly decided that knowledge of a senior user’s prior use of a mark destroys the good faith defense under the *Tea Rose-Rectanus* doctrine.

## INTRODUCTION

The policy goals of goodwill protection and trade diversion prevention underscore trademark law.<sup>1</sup> On the federal level, the Lanham Act serves these goals by creating a federal principal register and allowing a trademark owner to establish trademark rights throughout the nation.<sup>2</sup> Unregistered marks, however, are protected only at common law, and only under certain circumstances.<sup>3</sup>

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<sup>1</sup> TIM W. DORNIS, TRADEMARK AND UNFAIR COMPETITION CONFLICTS 77 (2017) (explaining that goodwill and trade diversion are the two crucial elements of trademark protection). “Goodwill” is the “positive reputation” that a business creates around its brand, a product of the owner’s labor. 38 AM. JUR. 2D *Good Will* § 1 (2019). Trademarks symbolize the business’s goodwill. J. THOMAS MCCARTHY, MCCARTHY ON TRADEMARKS AND UNFAIR COMPETITION § 18:2 (5th ed. 2018). Trade diversion occurs when a business applies another’s trademark to their own products, misrepresenting their products to be that of the original trademark user and depriving that user of profits they would have made if the trademark infringer had not misled the consumer into buying their products. *Hanover Star Milling Co. v. Metcalf*, 240 U.S. 403, 412 (1916).

<sup>2</sup> *Selecting and Registering a Trademark*, INT’L TRADEMARK ASS’N, <http://www.inta.org/TrademarkBasics/FactSheets/Pages/StateTrademarkRegistrationsUSFactSheet.aspx> [<https://perma.cc/C4QB-DHZW>]; see 15 U.S.C. § 1051 (2012) (codifying the application process for registration of a trademark on the federal principal register).

<sup>3</sup> MCCARTHY, *supra* note 1, § 26:1; see *Hanover*, 240 U.S. at 410–11 (noting that because neither party had a federally registered trademark, the Court would decide the case based on common law principles).

Under the common law *Tea Rose-Rectanus* doctrine, a junior user may establish priority over a senior user's right to a mark in a remote area if the mark is used in good faith.<sup>4</sup>

The Supreme Court has provided little guidance in determining what constitutes "good faith" for purposes of the *Tea Rose-Rectanus* doctrine, which has led to conflict within the courts.<sup>5</sup> In 2017, the United States Court of Appeals for the Ninth Circuit decided in *Stone Creek, Inc. v. Omnia Italian Design, Inc.* that when two parties use a similar mark, the junior user retains common law trademark rights so long as it used the mark in a remote area, in good faith, and without knowledge of the senior user's prior use of the mark.<sup>6</sup> This decision brought the Ninth Circuit on par with both the Seventh and Eighth Circuit Courts of Appeals, which had previously ruled that knowledge of the senior user's prior use of the mark destroys the doctrine's good faith defense.<sup>7</sup> In contrast, in the Fifth and Tenth Circuit Courts of Appeals, the junior user's knowledge that the senior user used the mark does not necessarily destroy good faith, unless the junior user intended to benefit from the senior user's goodwill and reputation.<sup>8</sup>

Part I of this Comment discusses the foundations of trademark rights, the *Tea Rose-Rectanus* doctrine, and the facts and procedural history of *Stone Creek*.<sup>9</sup> Part II of this Comment explains the circuit split and the different posi-

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<sup>4</sup> See *U.S. Drug Co. v. Theodore Rectanus Co.*, 248 U.S. 90, 104 (1918) (holding that, because the junior user Rectanus used the "Rex" mark in good faith and without knowledge of the senior user's use of the mark, and because Rectanus had already built up goodwill in that specific market, the senior user could not prevent Rectanus from continuing to use the mark in that market); *Hanover*, 240 U.S. at 419 (holding that, because the junior user used the "Tea Rose" mark in good faith and without knowledge of the senior user's use of the mark in a different market, the senior user could not assert trademark infringement in the junior user's market). The senior user is the first entity, either an individual or a business, to use a certain mark. MCCARTHY, *supra* note 1, § 26:1. The junior user is the entity that adopted the mark after the mark was in use. *Id.*

<sup>5</sup> See *Rectanus*, 248 U.S. at 103 (stating without elaboration that Rectanus, the junior user, used the "Rex" mark "in good faith, and without notice of prior use by others"); *Hanover*, 240 U.S. at 410 (stating without elaboration that the junior user, Hanover, used the mark "in good faith without knowledge or notice"); *infra* notes 7–8 and accompanying text.

<sup>6</sup> *Stone Creek, Inc. v. Omnia Italian Design, Inc. (Stone Creek IV)*, 875 F.3d 426, 439 (9th Cir. 2017).

<sup>7</sup> See, e.g., *Stone Creek IV*, 875 F.3d at 439 (holding that the junior user retains common law trademark rights only if it used the mark in good faith and without knowledge of the senior user's use of the mark); *Nat'l Ass'n for Healthcare Commc'ns, Inc. v. Cent. Ark. Area Agency on Aging, Inc.*, 257 F.3d 732, 735 (8th Cir. 2001) (holding that the defendant adopted the mark in good faith, without knowledge of the senior user's prior use); *Money Store v. Harris Corp. Fin., Inc.*, 689 F.2d 666, 675 (7th Cir. 1982) (explaining that to use a mark in good faith, the junior user must not have had knowledge of another's use of the mark).

<sup>8</sup> See, e.g., *C.P. Interests, Inc. v. Cal. Pools, Inc.*, 238 F.3d 690, 700 (5th Cir. 2001) (explaining that the Fifth Circuit case precedent supports knowledge as only one factor in determining good faith); *GTE Corp. v. Williams*, 904 F.2d 536, 541 (10th Cir. 1990) (holding that "mere knowledge" is not enough to determine bad faith).

<sup>9</sup> See *infra* notes 12–45 and accompanying text.

tions courts have taken in analyzing “good faith.”<sup>10</sup> Part III of this Comment analyzes each side’s policy implications and concludes that the Ninth Circuit’s analysis of the “good faith” element in *Stone Creek* is in line with the policy goals of trademark law and the *Tea Rose-Rectanus* doctrine.<sup>11</sup>

## I. THE FACTS AND HISTORY OF *STONE CREEK* AND THE *TEA ROSE-RECTANUS* DOCTRINE

Section A of this Part discusses the foundations of trademark rights and the *Tea Rose-Rectanus* doctrine.<sup>12</sup> Section B of this Part develops the facts of *Stone Creek, Inc. v. Omnia Italian Design, Inc.*<sup>13</sup> Section C of this Part discusses the procedural history of *Stone Creek*, from its initiation to the Supreme Court’s denial of a writ of certiorari.<sup>14</sup>

### A. The Tea Rose-Rectanus Doctrine

At common law, a trademark owner only acquires protection of a mark when the mark is actually used in commerce.<sup>15</sup> Courts determine whether trademark infringement occurred by analyzing whether there is a “likelihood of confusion” between a junior and senior user’s marks.<sup>16</sup> When a court determines that a likelihood of confusion exists, the first party to use the mark in commerce generally has the superior trademark right and may enjoin other parties within the same territorial area from using the mark.<sup>17</sup> In contrast, the Supreme Court established in the landmark cases of *Hanover Star Milling Co.*

<sup>10</sup> See *infra* notes 48–88 and accompanying text.

<sup>11</sup> See *infra* notes 89–102 and accompanying text.

<sup>12</sup> See *infra* notes 15–24 and accompanying text.

<sup>13</sup> See *infra* notes 25–30 and accompanying text.

<sup>14</sup> See *infra* notes 31–45 and accompanying text.

<sup>15</sup> *Hanover*, 240 U.S. at 413; see MCCARTHY, *supra* note 1, § 16:1 (explaining that trademark ownership priority goes to the first party to use the mark).

<sup>16</sup> MCCARTHY, *supra* note 1, § 23:1. State courts generally look to federal case precedent to test for trademark infringement. *Id.* § 23:1.50. State and federal laws protect against trademark confusion because the purpose of a trademark is for a business to designate itself as the producer of a good or service. Ned Snow, *Free Speech & Disparaging Trademarks*, 57 B.C.L. REV. 1639, 1648–49 (2016).

<sup>17</sup> *Hanover*, 240 U.S. at 415. The “remote” territorial area where senior users may enjoin junior users from using the mark is the geographic area where there is a likelihood of confusion between the trademarks of the junior and senior user. William J. Gross, Note, *The Territorial Scope of Trademark Rights*, 44 U. MIAMI L. REV. 1075, 1078 (1990). Courts refer to three “zones of protection” when determining the territorial scope of trademark protection: zones of actual market penetration, zones of reputation, and zones of natural expansion. *Id.* In the zone of actual market penetration, the senior user has built up popularity surrounding the product or brand such that the mark is associated with the senior user’s business, causing a likelihood of confusion with a junior user’s use of the mark. *Id.* In the zone of reputation, the trademark is known through advertising or word-of-mouth such that there is still a likelihood of confusion if another party uses the mark. *Id.* In the zone of natural expansion, the senior user has not developed any goodwill surrounding the mark but may eventually do so by expanding its business within the area. *Id.*

*v. Metcalf* (“Tea Rose”) in 1916 and *United States Drug Co. v. Theodore Rectanus Co.* (“Rectanus”) in 1918 that when two similar trademarks are used in remote markets, multiple users may possess a valid right to use the mark.<sup>18</sup> Under this *Tea Rose-Rectanus* doctrine, if a junior user of a trademark uses the mark in good faith in a remote area where it is not already in use, a senior user cannot enjoin the junior user from using the same or similar trademark in that area.<sup>19</sup> As the doctrine is an affirmative defense to an infringement claim, a defendant must prove both elements of “good faith” and “remoteness.”<sup>20</sup>

Conversely, the Lanham Act allows a trademark owner to establish trademark rights throughout the entire nation by registering it with the United States Patent and Trademark Office (“USPTO”).<sup>21</sup> The Act preserves junior users’ common law rights if they used the mark in good faith and in a remote area prior to the mark’s registration, but statutory constructive notice prevents a good faith defense for junior users who use the mark after registration.<sup>22</sup> If a trademark owner only has rights issued through a state’s trademark office, they only hold rights within that specific state.<sup>23</sup> Although a trademark owner using

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<sup>18</sup> See *Rectanus*, 248 U.S. at 100 (stating that two different users may use the same trademark simultaneously in different markets); *Hanover*, 240 U.S. at 416 (explaining that a senior user cannot monopolize markets where it has not used the mark and the mark is associated with a junior user’s products). In 1916, in *Hanover Star Milling Co. v. Metcalf*, the Supreme Court held that the junior user, Hanover Star Milling, coincidentally began selling “Tea Rose” flour without knowing of the senior user’s, Allen & Wheeler Co.’s, use of the name many years after the senior user began selling it in 1872. *Hanover*, 240 U.S. at 407–08. Hanover’s use of the mark never overlapped with the same geographic area as Allen & Wheeler Co. *Id.* at 408–09. Allen & Wheeler argued that senior ownership of the mark entitled it to prevent use of the mark anywhere in the nation. *Id.* at 407. The Supreme Court rejected this argument, holding that because Hanover used the mark in good faith, without knowledge of Allen & Wheeler Co.’s use of the mark, in a remote area, it was entitled to use the mark. *Id.* at 419. In the Supreme Court’s decision in 1918, in *United States Drug Co. v. Theodore Rectanus Co.*, Ellen Regis began selling drugs marked with its trademark, “Rex,” in New England in 1877, and eventually sold the business with all trademark rights to United Drug Co. in 1911. *Rectanus*, 248 U.S. at 94. Shortly thereafter, the junior user, Theodore Rectanus, began selling drugs with a similar mark in 1883 in Kentucky. *Id.* The Supreme Court held that the senior user, United Drug Co., could not prevent Rectanus from using the mark in in good faith in Kentucky because common law trademark rights did not extend into zones of natural expansion. *Id.* at 103; see Gross, *supra* note 17, at 1083 (explaining that zones of natural expansion are regions in which the senior user has not developed any goodwill surrounding the mark).

<sup>19</sup> *Rectanus*, 248 U.S. at 104; *Hanover*, 240 U.S. at 419; MCCARTHY, *supra* note 1, § 26:2.

<sup>20</sup> MCCARTHY, *supra* note 1, § 26:4; Gross, *supra* note 17, at 1083; see *supra* note 17 and accompanying text (explaining “remoteness”); *infra* notes 49–88 and accompanying text (explaining “good faith”).

<sup>21</sup> INT’L TRADEMARK ASS’N, *supra* note 2; see 15 U.S.C. § 1115 (stating that registration of a trademark on the federal principal register is prima facie evidence of the registered party’s exclusive right to use the mark).

<sup>22</sup> 15 U.S.C. §§ 1072, 1115(b)(5)–(6). Constructive notice is “notice presumed by law to have been acquired by a person and thus imputed by that person.” Notice, BLACK’S LAW DICTIONARY (10th ed. 2014).

<sup>23</sup> INT’L TRADEMARK ASS’N, *supra* note 2. Some state laws allow remedies in addition to those afforded by the Lanham Act. *Id.*

the trademark only within a single state may register the trademark in that state, the USPTO reserves federal registration for marks used in interstate, territorial, and international commerce.<sup>24</sup>

### B. Stone Creek’s Factual Background

In 1992, Stone Creek, Inc., an Arizona-based furniture manufacturer and seller, registered the trademark “STONE CREEK” with the Arizona state register, but not with the USPTO.<sup>25</sup> In 2003, Stone Creek entered into an agreement with Omnia, a California-based leather furniture manufacturer, wherein Omnia manufactured and distributed leather furniture for Stone Creek and affixed the furniture with the STONE CREEK mark.<sup>26</sup> In 2008, Omnia entered into a similar agreement with Bon-Ton wherein Omnia supplied leather furniture to Bon-Ton, who sold and delivered the furniture to consumers in the Midwest.<sup>27</sup> Omnia manufactured the furniture for Bon-Ton’s private label but affixed the STONE CREEK mark, copied directly from Stone Creek’s marketing materials, on the furniture without Stone Creek’s permission.<sup>28</sup> Bon-Ton and Stone Creek did not actively sell furniture in the same geographic areas; Bon-Ton’s Omnia products with the STONE CREEK mark reached customers in the Midwest, whereas Stone Creek sold primarily in Arizona.<sup>29</sup> In 2013, after

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<sup>24</sup> *Id.* The scope of the Lanham Act is “commerce within the control of Congress.” 15 U.S.C. § 1127. Use of a mark within a single state may still qualify for federal registration under the Lanham Act if the use of the mark “would, taken in the aggregate, have a direct effect on interstate commerce” and fall under Congress’s Commerce Clause powers. *Commerce That May Be Lawfully Regulated by Congress*, TRADEMARK MANUAL EXAMINING PROC. § 901.03 (Oct. 2018); see U.S. CONST. art. I, § 8, cl. 3 (providing Congress with the power to regular certain types of commerce); *Christian Faith Fellowship Church v. Adidas AG*, 841 F.3d 986, 992–93 (Fed. Cir. 2016) (holding that a church’s intrastate sale of hats to an out-of-state resident fell under Congress’s Commerce Clause powers and qualified the mark for federal trademark registration). Marks that are not approved for placement on the federal principal register may still qualify for the supplemental register, which affords some rights to the user but does not place others on constructive notice. See 15 U.S.C. § 1094 (listing the provisions of the statute applicable to supplemental registrations).

<sup>25</sup> *Stone Creek IV*, 875 F.3d at 430; *Stone Creek, Inc. v. Omnia Italian Design, Inc.* (*Stone Creek I*), 2014 WL 11514487, at \*1 (D. Ariz. Aug. 14, 2014).

<sup>26</sup> *Stone Creek I*, 2014 WL 11514487, at \*1. The STONE CREEK mark consists of the words “Stone Creek” circled in a red oval. *Id.*

<sup>27</sup> *Id.* Bon-Ton refused to sell under the Omnia name, and instead opted to sell under the more American-sounding “Stone Creek.” *Stone Creek IV*, 875 F.3d at 430. Bon-Ton’s products with the STONE CREEK mark reached customers specifically in Illinois, Indiana, Iowa, Michigan, Ohio, Pennsylvania, and Wisconsin. *Id.*

<sup>28</sup> *Stone Creek I*, 2014 WL 11514487, at \*1.

<sup>29</sup> *Stone Creek IV*, 875 F.3d at 430. Bon-Ton sold its products in Stone Creek’s zone of reputation; Stone Creek’s online and print advertisements reached the Midwest, and a very small fraction of Stone’s Creek’s total sales were from customers in the Midwest. See *id.* at 434 (describing Stone Creek’s advertising methods and stating that \$610,384 of more than \$200,000,000 of Stone Creek’s total sales occurred in the Midwest); Gross, *supra* note 17, at 1072 (explaining that in the zone of reputation, the trademark is known through advertising so that a likelihood of confusion exists if another party uses the mark).

learning of Bon-Ton's use of its mark, Stone Creek filed a trademark infringement suit against Omnia in the District of Arizona.<sup>30</sup>

### C. Procedural History

In 2014, the district court considered whether Omnia acquired common law trademark rights to the STONE CREEK mark in the Midwest under the *Tea Rose-Rectanus* doctrine.<sup>31</sup> On a motion for summary judgment, the court rejected the defense, joining the majority of jurisdictions in holding that the junior user's knowledge of the senior's use of the trademark defeats the doctrine's "good faith" element.<sup>32</sup> The court considered but rejected the alternative view that the junior user's knowledge is strong evidence of bad faith but does not automatically prevent a finding of good faith.<sup>33</sup>

The court reasoned that if the Lanham Act dictates that statutory constructive notice prevents a good faith defense for junior users who use the mark after registration, then a junior user's *actual* knowledge of the senior user's prior use of the mark, without federal registration, requires the same outcome.<sup>34</sup> Because Omnia adopted the mark despite knowing of Stone Creek's prior use, Omnia did not use the mark in good faith and did not acquire the right under

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<sup>30</sup> *Stone Creek I*, 2014 WL 11514487, at \*2. Omnia moved for summary judgment on all of the alleged claims, including trademark infringement, contract, and tort claims. *Id.* Stone Creek moved for partial summary judgment on its claims of trademark infringement and unfair competition. *Id.*

<sup>31</sup> *Id.* at \*4.

<sup>32</sup> *Id.* at \*4–5. The district court specifically agreed with *Johanna Farms, Inc. v. Citrus Bowl, Inc.*, a 1978 case from the U.S. District Court for the Eastern District of New York, which stated that, if Lanham Act constructive notice defeats good faith, then actual knowledge should also destroy good faith in cases with unregistered trademarks. *Stone Creek I*, 2014 WL 11514487, at \*4–5; see *Johanna Farms, Inc. v. Citrus Bowl, Inc.*, 468 F. Supp 866, 876 (E.D.N.Y. 1978) (holding that a junior user's actual knowledge of a senior user's use of a mark destroys good faith).

<sup>33</sup> *Stone Creek I*, 2014 WL 11514487, at \*4–5 (rejecting the minority view that the focus of a good faith inquiry should be whether the junior user intended to benefit from the senior user's goodwill). Specifically, the district court considered the arguments in the Fifth Circuit Court of Appeals' opinion in 2001 in *C.P. Interests, Inc. v. Cal. Pools, Inc.* and the Tenth Circuit Court of Appeals' opinion in 1990 in *GTE Corp. v. Williams*. See *Stone Creek I*, 2014 WL 11514487, at \*4–5 (referencing the minority view that the junior user's knowledge of the senior user's prior use of a mark does not automatically preclude a finding of good faith); *C.P. Interests*, 238 F.3d at 700 (holding that "mere knowledge" is not enough to determine bad faith; rather, the focus of a good faith inquiry should be whether the junior user intended to benefit off of the senior user's goodwill); *GTE Corp.*, 904 F.2d at 541 (holding that Fifth Circuit precedent required knowledge of prior use to be only one factor in determining good faith); *infra* notes 68–76 and accompanying text.

<sup>34</sup> *Stone Creek I*, 2014 WL 11514487, at \*5; see 15 U.S.C. § 1072 (codifying federal registration as constructive notice). The district court did not elaborate on its reasoning. See *Stone Creek I*, 2014 WL 11514487, at \*5 (deciding, without elaboration, that, similar to the Lanham Act, a junior user's knowledge of a senior's prior use of a mark precludes a finding of good faith at common law).

common law to use the mark in the Midwest.<sup>35</sup> Thus, Stone Creek retained the exclusive right to use the mark in Omnia’s market.<sup>36</sup>

Despite holding that Omnia did not have common law rights to use the mark, the court denied Stone Creek’s motion for summary judgment because it was unwilling to decide whether there was a likelihood of confusion between the two marks.<sup>37</sup> In 2015, Stone Creek once again moved for partial summary judgment seeking a disgorgement of Omnia’s revenue, which the court denied.<sup>38</sup> After a bench trial, the district court ruled in Omnia’s favor, finding no liability on its part because the evidence available did not show a likelihood of confusion between Omnia and Stone Creek’s use of the mark.<sup>39</sup>

Stone Creek appealed the district court’s decision to the Ninth Circuit.<sup>40</sup> On appeal, Omnia argued that the Ninth Circuit should affirm the district court’s holding of no liability because Omnia’s use of the mark did not cause a likelihood of confusion, or, alternatively, on the basis that Omnia established

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<sup>35</sup> *Stone Creek I*, 2014 WL 11514487, at \*5

<sup>36</sup> *Id.* at \*5 (establishing Stone Creek’s ownership of the mark).

<sup>37</sup> *Id.* at \*8. To satisfy the elements of its trademark infringement claim, Stone Creek had to show that: (1) it owned a valid mark; (2) Omnia used Stone Creek’s mark without its consent; and (3) Omnia’s unauthorized use of the mark was likely to cause confusion. *Id.* at \*2. The likelihood of confusion prong is the main element of a trademark infringement claim. *Id.* at \*5. The Ninth Circuit used an eight-factor test to determine the likelihood of confusion: (1) the similarity of the marks; (2) the relatedness of the goods; (3) the marketing channels used; (4) the strength of the mark; (5) defendant’s intent in selecting the mark; (6) evidence of actual confusion; (7) the likelihood of expansion into other markets; and (8) the degree of care likely to be exercised by purchasers. *Id.* Due to genuine factual disputes regarding whether Stone Creek was likely to expand into other markets, consumer recognition of the mark, evidence of actual confusion, and the marketing channels that Stone Creek used, the district court was unwilling to decide at the summary judgment stage that there was a likelihood of confusion between the marks. *Id.* Consequently, the court granted partial summary judgment in Stone Creek’s favor regarding its exclusive right to use the mark in Omnia’s market and Omnia’s lack of permission to use the mark, but denied summary judgment for both parties on the issue of Omnia’s ultimate liability. *Id.*

<sup>38</sup> *See* *Stone Creek, Inc. v. Omnia Italian Design, Inc. (Stone Creek II)*, 2015 WL 11117079, at \*5 (D. Ariz. July 10, 2014) (denying Stone Creek’s motion for partial summary judgment seeking disgorgement of Omnia’s revenue). The court could not award profits to Stone Creek because, to determine whether Omnia *willfully* infringed on the mark, it needed first to decide that Omnia did in fact infringe on Stone Creek’s trademark, which it had yet to do. *Id.* Because Stone Creek “unreasonably multiplied the proceedings of the case,” and because Stone Creek’s attorneys knowingly or recklessly raised frivolous arguments, the court sanctioned Stone Creek’s attorneys under 28 U.S.C. § 1927. *Stone Creek II*, 2015 WL 11117079, at \*5; *see* 28 U.S.C. § 1927 (2012) (imposing economic sanctions on attorneys who “unreasonably and vexatiously” multiply court proceedings); *Stone Creek, Inc. v. Omnia Italian Design, Inc.*, 2016 WL 492629, at \*3 (D. Ariz. Feb. 9, 2016) (granting in part Omnia’s Motion for Attorneys’ Fees for fees it incurred in preparing to defend itself against Stone Creek’s meritless claims for actual damages).

<sup>39</sup> *Stone Creek, Inc. v. Omnia Italian Design, Inc.*, 2015 WL 6865704 (*Stone Creek III*), at \*7 (D. Ariz. Nov. 9, 2015). The district court applied the Ninth Circuit’s eight-factor test to determine the likelihood of confusion and found that the factors weighed in Omnia’s favor. *See id.* at \*6 (finding that “territorial isolation prevented the likelihood of confusion”).

<sup>40</sup> *Stone Creek IV*, 875 F.3d at 428.



common-law rights to use the STONE CREEK mark under the *Tea Rose-Rectanus* doctrine.<sup>41</sup> The court reversed the district court's finding that there was no likelihood of consumer confusion, holding Omnia liable for infringement of the STONE CREEK mark.<sup>42</sup> The Ninth Circuit also rejected Omnia's *Tea Rose-Rectanus* defense, agreeing with the district court that Omnia's knowledge of Stone Creek's prior use of the mark destroyed its good faith element.<sup>43</sup>

On November 13, 2017, Omnia filed a petition for writ of certiorari to the Supreme Court.<sup>44</sup> The Court denied the petition on May 14, 2018.<sup>45</sup>

## II. LEGAL CONTEXT AND FRAMEWORK

Section A of this Part discusses how the Supreme Court's holdings in *Hanover Star Milling Co. v. Metcalf* ("Tea Rose") in 1916 and *United States Drug Co. v. Theodore Rectanus Co.* ("Rectanus") in 1918 allow for multiple interpretations of the "good faith" element of the *Tea Rose-Rectanus* doctrine.<sup>46</sup> Section B compares the Seventh and Eighth Circuit Courts of Appeals' "no knowledge" approach to good faith with the Tenth and Fifth Circuit Courts of Appeals' "something more" approach.<sup>47</sup> Section C discusses the Ninth Circuit Court of Appeals' interpretation of "good faith" in 2015 in *Stone Creek, Inc. v. Omnia Italian Design, Inc.*<sup>48</sup>

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<sup>41</sup> *Id.* at 429.

<sup>42</sup> *Id.* at 444.

<sup>43</sup> *Id.* at 439. The Ninth Circuit also remanded the earlier disgorgement of profits case, agreeing that willfulness is a required condition of disgorgement of profits and ordering the lower court to determine whether Omnia possessed the necessary intent to infringe. *Id.*; see *Stone Creek II*, 2015 WL 11117079, at \*5 (holding that the court could not award damages to Stone Creek by determining whether Omnia willfully infringed on the mark until it determined whether Omnia infringed on the mark at all). Lastly, the Ninth Circuit reversed the sanctions on Stone Creek's attorneys for bringing the disgorgement of profits suit, stating that their arguments were not frivolous, but upheld the sanctions on the attorneys for their continued assertion of the actual damages claim. *Stone Creek IV*, 875 F.3d at 428; see *Stone Creek II*, 2015 WL 11117079, at \*5 (sanctioning Stone Creek's attorneys for bringing a motion for summary judgment that "unreasonably multiplied the proceedings of the case," and for knowingly or recklessly raising a frivolous argument regarding disgorgement of profits). On remand, the district court held that Stone Creek is not entitled to disgorgement of Omnia's profits because Omnia did not willfully infringe on the trademark, but is entitled to a permanent injunction to prevent Omnia from infringing on the mark again. *Stone Creek, Inc. v. Omnia Italian Design, Inc.*, 2018 WL 1784689, at \*3 (D. Ariz. Apr. 12, 2018).

<sup>44</sup> Petition for a Writ of Certiorari, *Omnia Italian Design, Inc. v. Stone Creek, Inc.*, 2017 WL 5495948 (U.S. Nov. 13, 2017) (No. 17-731).

<sup>45</sup> *Omnia Italian Design, Inc. v. Stone Creek, Inc.*, 138 S. Ct. 1984 (2018).

<sup>46</sup> See *infra* notes 49–62 and accompanying text.

<sup>47</sup> See *infra* notes 63–80 and accompanying text.

<sup>48</sup> See *infra* notes 81–88 and accompanying text.

### A. The Supreme Court’s Take on “Good Faith”

The Supreme Court did not outline the good faith element’s requirements in either of its doctrinal cases.<sup>49</sup> Neither of the junior users in *Tea Rose* and *Rectanus* knew of the senior user’s prior use of the mark.<sup>50</sup> The Supreme Court has not provided guidance on the good faith element of the doctrine since it decided *Rectanus* in 1918.<sup>51</sup> Federal circuit courts are thus split between whether knowledge of a senior user’s prior use of the mark destroys good faith completely, or is merely one factor to consider in a good faith analysis.<sup>52</sup>

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<sup>49</sup> See *United States Drug Co. v. Theodore Rectanus Co.*, 248 U.S. 90, 103 (1918) (stating without elaboration that the junior user used the mark “in good faith, and without notice of prior use by others.”); *Hanover Star Milling Co. v. Metcalf*, 240 U.S. 403, 410 (1916) (stating without elaboration that the junior user used the mark “in good faith without knowledge or notice”).

<sup>50</sup> *Rectanus*, 248 U.S. at 94 (noting that the junior user, Theodore Rectanus, began selling drugs with a similar mark as the senior user, Ellen Regis, without knowing of her use of the mark); *Hanover*, 240 U.S. at 412 (noting that the junior user, Hanover Star Milling, coincidentally began selling “Tea Rose” flour, without knowing of Allen & Wheeler Co.’s use of the name, many years after the senior user began selling it in 1872).

<sup>51</sup> See generally *Rectanus*, 248 U.S. 90 (holding that the senior user could not prevent the junior user from continuing to use the mark because the junior user used the mark in good faith and had already built up goodwill in that market); *Hanover*, 240 U.S. 403 (holding that the senior trademark user could not assert trademark infringement in the junior user’s market where the junior user used the mark in good faith and without knowledge of the senior user’s prior use). In the eighteenth century, trademark rights developed based on the distinction between Courts of Equity and Courts of Law. MCCARTHY, *supra* note 1, § 2:1. In Courts of Law, trademark infringement cases were based on the concept of fraud. *Id.* In Courts of Equity, cases were based on the concept of trademark as a property right. *Id.* In time, courts began to recognize rights to exclusive uses of marks, and in 1879, the Supreme Court’s *In re Trade-Mark Cases* ruling solidified the concept of trademark rights as property rights. DORNIS, *supra* note 1, at 81–83; see *In re Trade-Mark Cases*, 100 U.S. 82, 92 (1879) (holding that the right to a symbol is a property right). With this determination came a new issue: whether trademark protection was an absolute property right. DORNIS, *supra* note 1, at 91. In 1879, the Supreme Court held in *Kidd v. Johnson* that the right to use a trademark would not be limited geographically or temporally. Dornis, *supra* note 1, at 92; see *Kidd v. Johnson*, 100 U.S. 617, 619 (1879) (explaining, in a dispute centered on the concurrent use of a whiskey trademark in New York and Cincinnati, that trademark rights are not limited with regard to time or place). This proved problematic as marketplaces expanded and trade and commerce increased because absolute trademark protection inhibited protection of good faith market investment and affected the public good; an unlimited trademark protection for one individual resulted in absolute limitation for all other individuals. DORNIS, *supra* note 1, at 93. As the focus of trademarks began to shift from the trademark owner’s place of business to the market and customer base, the Supreme Court introduced the *Tea Rose-Rectanus* doctrine, effectively limiting the territorial scope of trademark rights that courts previously viewed as unlimited. *Id.* at 102.

<sup>52</sup> *Compare Stone Creek, Inc. v. Omnia Italian Design, Inc. (Stone Creek IV)*, 875 F.3d 426, 430 (9th Cir. 2017) (holding that the junior user retains common law trademark rights only if it used the mark in good faith and without knowledge of the senior user’s use of the mark), *Nat’l Ass’n for Healthcare Commc’ns, Inc. v. Cent. Ark. Area Agency on Aging, Inc.*, 257 F.3d 732, 735 (8th Cir. 2001) (holding that the defendant adopted the mark in good faith, without knowledge of the senior user’s prior use), and *Money Store v. Harris Corp. Fin., Inc.*, 689 F.2d 666, 675 (7th Cir. 1982) (holding that a junior user of trademark only used that mark in good faith if they did not have knowledge of the senior user’s use of the mark), *with C.P. Interests, Inc. v. Cal. Pools, Inc.*, 238 F.3d 690, 700 (5th Cir. 2001) (holding that Fifth Circuit precedent required knowledge of prior use to be only one factor in

In *Tea Rose*, the Court noted that the junior user used the mark in good faith without any knowledge of its prior use, indicating that lack of knowledge is necessary to establish good faith.<sup>53</sup> Nonetheless, the Court later mentioned that if the junior and senior users' markets are remote from one another, the issue of first use is insignificant unless the junior user adopted the mark to benefit from the senior user's goodwill, or some other "design inimical to the interests of the senior user."<sup>54</sup> With this "design inimical" language, the Court also seemed to indicate that if the two markets are remote, the intent to benefit from the senior user's goodwill or the expectation of a likelihood of confusion with the senior user's mark would destroy good faith; knowledge of the mark alone would not be enough to do so.<sup>55</sup>

The Court's holding in *Rectanus* also did not contradict either position, as the Court noted that the junior user used the mark in good faith without knowledge of prior use, and, quoting *Tea Rose*'s "design inimical" language, further noted that there was no evidence of an ill motive.<sup>56</sup> The Court did not explicitly define good faith, but held that bad faith use would be significant in determining the junior user's territorial trademark rights.<sup>57</sup> In emphasizing that trademark rights are meant to protect a user's goodwill, the Court explained that preventing Rectanus, the junior user, from using the mark in good faith in a remote area after creating his own goodwill surrounding the mark, would be contrary to the policy goals of prioritizing first use.<sup>58</sup>

Taken together, the *Tea Rose-Rectanus* doctrine provides lower courts with two primary analytical concerns that slightly conflict.<sup>59</sup> On one side, because the senior user has not generated any goodwill in a remote area to protect, the junior user should be free to use the mark regardless of knowledge if they did not intend to infringe on the trademark.<sup>60</sup> On the other side, the Court's emphasis on

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determining good faith), and *GTE Corp. v. Williams*, 904 F.2d 536, 541 (10th Cir. 1990) (holding that "mere knowledge" is not enough to determine bad faith; rather, the focus of a good faith inquiry should be whether the junior user intended to benefit off of the senior user's goodwill).

<sup>53</sup> *Hanover*, 240 U.S. at 412.

<sup>54</sup> *Id.* at 420.

<sup>55</sup> *See id.* ("The question of prior appropriation is legally insignificant; unless . . . the second adopter has selected the mark with some design inimical to the interests of the senior user, such as to take the benefit of the reputation of his goods . . ."); MCCARTHY, *supra* note 1, § 26:10 (explaining the minority view that more than just knowledge of prior use is necessary to destroy good faith).

<sup>56</sup> *Rectanus*, 248 U.S. at 101, 103; *see Hanover*, 240 U.S. at 412 (explaining that, in remote markets, determining prior or first use of a mark is "legally insignificant" unless the junior user chose the mark "with some design inimical to the interests of the senior user . . .").

<sup>57</sup> *See Rectanus*, 248 U.S. at 101 (emphasizing that Rectanus had no sinister purpose).

<sup>58</sup> *See id.* at 100 (stating that a trademark is a means of protecting one's goodwill).

<sup>59</sup> *See supra* note 52 and accompanying text (describing the extent of the circuit split).

<sup>60</sup> *See Rectanus*, 248 U.S. at 101 (connecting the junior user's lack of "sinister purpose" with good faith); *Hanover*, 240 U.S. at 415 (preventing the senior user from asserting trademark infringement unless the junior user used the mark "with some design inimical to the interests of the first user"); *infra* notes 68–76 and accompanying text.

the junior user’s lack of knowledge indicates that knowledge of prior use is in itself a lack of good faith.<sup>61</sup> Subsequent decisions by lower courts applying this guidance have split in two directions differentiated by which mode of analysis the court prioritizes.<sup>62</sup>

### *B. The Split Circuits: Strict vs. Loose Interpretation of “Good Faith”*

One of the earliest leading cases that held that knowledge of prior use destroys good faith was the Seventh Circuit’s 1982 decision in *Money Store v. Harriscorp Finance, Inc.*<sup>63</sup> The plaintiff, Money Store, first used its mark in New Jersey and Pennsylvania in 1972; eight months later, United Bank began using the same mark in Chicago.<sup>64</sup> The Seventh Circuit decided that, because the plaintiff did not federally register the mark until twenty months after United Bank’s first use, United Bank did not have constructive knowledge of Money Store’s use of the mark.<sup>65</sup> Because Money Store could not provide evidence that United Bank had actual knowledge of its first use of the mark, the court found that United Bank used the mark in good faith and could enjoin Money Store’s use of the mark in Chicago.<sup>66</sup> The Seventh Circuit did not elaborate on its rationale behind why good faith requires a lack of knowledge of the prior use of the mark.<sup>67</sup>

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<sup>61</sup> See *Rectanus*, 248 U.S. at 101, 103 (deciding that the junior user could use the mark if they appropriated the mark in good faith and without knowledge of the senior’s prior use); *Hanover*, 240 U.S. at 437 (emphasizing the importance of prior opinions that closely connect knowledge with good faith); *infra* notes 63–67, 77–80 and accompanying text.

<sup>62</sup> Compare *Stone Creek IV*, 875 F.3d at 430 (holding that the junior user retains common law trademark rights only if it used the mark in good faith and without knowledge of the senior user’s use of the mark), *Nat’l Ass’n for Healthcare Commc’ns*, 257 F.3d at 735 (holding that the defendant adopted the mark in good faith if they used the mark without knowledge of the senior user’s prior use), and *Money Store*, 689 F.2d at 675 (holding that knowledge of the mark’s use prevents a junior user from using it in good faith), with *C.P. Interests*, 238 F.3d at 700 (holding that knowledge is only one factor in determining good faith), and *GTE Corp.*, 904 F.2d at 541 (holding that “mere knowledge” is not enough to determine bad faith).

<sup>63</sup> See *Money Store*, 689 F.2d at 675 (explaining that a junior user only used the mark in good faith if they did not know that someone else already used the mark to distinguish their business).

<sup>64</sup> *Id.* United Bank assigned the mark to the defendant, Harriscorp, in 1974. *Id.* at 669.

<sup>65</sup> *Id.*

<sup>66</sup> *Id.*

<sup>67</sup> See *id.* (holding without elaboration that good faith requires a lack of knowledge). Without elaborating on why good faith requires a lack of knowledge, the court proceeded into a discussion of whether United Bank could assign the mark and its associated goodwill to the defendant, Harriscorp. *Id.* Under the *Tea Rose-Rectanus* doctrine, Harriscorp could tack its use of the mark onto that of United to predate Money Store’s registration. See *id.* (stating that United bank assigned its trademark rights to Harriscorp in January 1974); MCCARTHY, *supra* note 1, § 26:5 (explaining that a good faith junior user can tack on its use of a mark to that of a predecessor). When a mark is assigned to another party, the original owner transfers all rights to the mark, including the mark’s goodwill, to the new owner. MCCARTHY, *supra* note 1, § 18:2; see 15 U.S.C. § 1060 (2012) (codifying federal trademark assignment).

Eight years later, in 1990, the Tenth Circuit disagreed with the Seventh Circuit in its decision in *GTE Corporation v. Williams*.<sup>68</sup> The Tenth Circuit held that because a finding of good faith should be based on the junior user's intent, knowledge of the senior user's prior use of the mark did not by itself destroy good faith.<sup>69</sup> The junior user, Williams, was aware of the company General Telephone and Electronics of California ("GTE") but did not realize that GTE also used the mark "General Telephone."<sup>70</sup> The court held that, although knowledge of the use could indicate bad faith, the focus of the court's inquiry should be on the junior user's intent.<sup>71</sup> If junior users did not intend to benefit from the senior user's goodwill, then they still acted in good faith; thus, Williams had the right to use the "General Telephone" mark.<sup>72</sup> The Tenth Circuit deferred to the district court's finding that Williams acted in good faith but conceded that instances of junior users adopting a mark in good faith, if they had knowledge of the prior use of the mark, are rare.<sup>73</sup> The court did not elaborate on its stance regarding the good faith issue.<sup>74</sup>

Similarly, in 2001, the Fifth Circuit held in its decision in *C.P. Interest, Inc. v. California Pools, Inc.* that knowledge of a senior user's prior use of a mark is only one factor in considering whether the defendant used the mark in good faith.<sup>75</sup> Although the junior user, C.P. Interests, did not expressly claim that it had no knowledge of California Pools' prior use of the mark, the court nevertheless held, albeit in dicta, that, based on precedent, even if C.P. Inter-

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<sup>68</sup> Compare *GTE Corp.*, 904 F.2d at 541 (holding that "mere knowledge" is not enough to determine bad faith), with *Money Store*, 689 F.2d at 675 (holding that knowledge destroys good faith).

<sup>69</sup> *GTE Corp.*, 904 F.2d at 541 ("[M]ere knowledge should not foreclose further inquiry. The ultimate focus is on whether the second user had the intent to benefit from the reputation or goodwill of the first user.").

<sup>70</sup> *Id.*

<sup>71</sup> *Id.*

<sup>72</sup> *Id.* Once a court determines that a party may use a mark concurrently with the owner of a federal trademark registration in separate geographic areas, the junior user may apply for concurrent federal registration under 15 U.S.C. § 1052, provided that the party's use of the mark qualifies it for federal registration. 15 U.S.C. § 1052, *invalidated by In re Brunetti*, 877 F.3d 1330 (D.C. Cir. 2017); MCCARTHY, *supra* note 1, § 20:81. To qualify for concurrent registration, the parties must be entitled to use the mark concurrently and no likelihood of consumer confusion may exist as a result of the concurrent use of the trademark. MCCARTHY, *supra* note 1, § 20:82; see 15 U.S.C. § 1052 (allowing concurrent federal trademark registration in separate territories under certain circumstances). The applicant has the burden to demonstrate that the concurrent use will not result in a likelihood of confusion. MCCARTHY, *supra* note 1, § 20:85.

<sup>73</sup> *GTE Corp.*, 904 F.2d at 541. The Tenth Circuit noted that the defendant's knowledge made the good faith claim "improbable." *Id.*

<sup>74</sup> See *id.* (deferring to the district court's finding of good faith). The district court held that the defendant Williams adopted the mark in good faith because he "did not intend to benefit from GTE's alleged goodwill or reputation," but also did not elaborate on its reasoning behind this decision. *GTE Corp. v. Williams*, 649 F. Supp. 164, 173 (D. Utah 1986).

<sup>75</sup> *C.P. Interests*, 238 F.3d at 700 ("[O]ur past precedent implies . . . that knowledge of use is but one factor in a good faith inquiry.").

ests had knowledge of the prior use it would not have been enough to constitute bad faith.<sup>76</sup>

In that same year, the Eighth Circuit in its decision in *National Association for Healthcare Communications, Inc. v. Central Arkansas Area Agency on Aging, Inc.*, joined the Seventh Circuit in deciding that knowledge of prior use of a mark destroys good faith, further cementing the rift between the federal circuits.<sup>77</sup> The defendant, Central Arkansas Area Agency on Aging ("CA"), began using the CareLink mark in 1995 in six counties in Arkansas.<sup>78</sup> The plaintiff, Healthcom, used the same mark in late 1991 or early 1992 in Illinois, and did not apply for federal registration until 1999.<sup>79</sup> The Eighth Circuit decided, without explaining their rationale, that CA used the CareLink mark in good faith without knowledge of Healthcom's first use.<sup>80</sup>

### C. The Ninth Circuit's Analysis

In its analysis of good faith in *Stone Creek*, the Ninth Circuit reviewed past Supreme Court and federal circuit decisions to assess how much weight should be placed on a junior user's knowledge of a senior user's prior use of a mark.<sup>81</sup> The court began its analysis by reviewing the Supreme Court's decisions in *Tea Rose* and *Rectanus*, concluding that the Court's heavy emphasis on the junior user's lack of knowledge indicated that the Court intended for knowledge to be dispositive of good faith.<sup>82</sup> The Ninth Circuit supported this analysis with a 1988 Supreme Court case, *K Mart Corp. v. Cartier, Inc.*, in which Justice Brennan posited in his concurrence that good faith requires a lack of knowledge.<sup>83</sup> The court pointed to additional persuasive authority

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<sup>76</sup> *Id.* The Fifth Circuit Court of Appeals pointed to its 1954 common law trademark infringement decision in *El Chico, Inc. v. El Chico Café*, which held that, even with knowledge, there was no basis for a finding of bad faith on the part of a defendant who used the same name as the plaintiff because the plaintiff could not provide evidence that the defendant intended to benefit from the plaintiff's goodwill. *C.P. Interests*, 238 F.3d at 700; *El Chico, Inc. v. El Chico Café*, 214 F.2d 721, 726 (5th Cir. 1954).

<sup>77</sup> *See Nat'l Ass'n for Healthcare Commc'ns*, 257 F.3d at 732 (stating that the junior user used the mark in good faith and without knowledge of the senior user's prior use of the mark).

<sup>78</sup> *Id.* at 734.

<sup>79</sup> *Id.*

<sup>80</sup> *See id.* at 735 (holding without elaboration that CareLink used the mark in good faith and without knowledge of the senior user's prior use of the mark).

<sup>81</sup> *See Stone Creek IV*, 875 F.3d at 437 (citing to the doctrinal Supreme Court cases).

<sup>82</sup> *See id.* (concluding that the Supreme Court intended knowledge to be dispositive of good faith); *see also Rectanus*, 248 U.S. at 101, 103 (noting that the junior user used the mark "in good faith and without notice of prior use"); *Hanover*, 240 U.S. at 412 (noting that the junior user used the mark in good faith without any knowledge of prior use of the mark).

<sup>83</sup> *Stone Creek IV*, 875 F.3d at 437; *see K Mart Corp. v. Cartier, Inc.*, 486 U.S. 281, 314 n.8 (1988) (Brennan, J., concurring in part and dissenting in part) ("[A] firm can develop a trademark that is identical to a trademark already in use in a geographically distinct and remote area if the firm is unaware of the identity.").

through the holdings of the Seventh and Eighth Circuits, agreeing with their assessments of the doctrine.<sup>84</sup> Finally, the court acknowledged the “design inimical” language in *Tea Rose* but concluded that the Supreme Court’s heavy emphasis on knowledge, or lack thereof, made clear that it should be dispositive of good faith.<sup>85</sup>

With this doctrinal background established, the court turned to public policy considerations and identified additional support for strict interpretation of good faith.<sup>86</sup> The Ninth Circuit decided to bring the *Tea Rose-Rectanus* doctrine in parity with the Lanham Act, stating that actual knowledge, like constructive knowledge, should be sufficient to destroy good faith.<sup>87</sup> The court also held that in light of the underlying trademark policy goal of protecting a mark’s goodwill, equating knowledge with bad faith makes the most sense because, if junior users know they are using a mark that was already in use by another party, they implicitly understand that their actions infringe on and harm the senior user.<sup>88</sup>

### III. THE NINTH CIRCUIT CORRECTLY INTERPRETED “GOOD FAITH”

The Ninth Circuit Court of Appeals’ decision that knowledge of prior use is dispositive of good faith is correct in light of trademark policy goals.<sup>89</sup> Because the Supreme Court never established what constitutes “good faith” in applying the *Tea Rose-Rectanus* doctrine, the element can be and has been plausibly interpreted either strictly, as in the Seventh and Eighth Circuit Courts

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<sup>84</sup> *Stone Creek IV*, 875 F.3d at 430; see *Money Store*, 689 F.2d at 675 (holding that a junior user used the mark in good faith if they did not have knowledge of the senior user’s prior use of the mark); *Nat’l Ass’n for Healthcare Commc’ns*, 257 F.3d at 732 (holding that the defendant adopted the mark in good faith, without knowledge of the senior user’s prior use); *supra* notes 63–67, 77–80 and accompanying text.

<sup>85</sup> See *Stone Creek IV*, 875 F.3d at 438 (“But this brief reference to ‘design inimical’ does not override the central focus on knowledge; it is not without significance that ‘design inimical’ does not appear anywhere else in the opinion.”). The *Stone Creek IV* court cited to multiple instances in *Tea Rose* and *Rectanus* in which the Supreme Court closely linked knowledge with good faith. See *id.* (“When describing good faith, the Supreme Court emphasized that the junior user had no awareness of the senior user’s use of the mark.”).

<sup>86</sup> *Id.* at 438–39.

<sup>87</sup> *Id.* at 439; see 15 U.S.C. § 1072 (stating that registration of a mark on the principal register serves as constructive notice of the mark’s use).

<sup>88</sup> *Stone Creek IV*, 875 F.3d at 439. The *Tea Rose-Rectanus* doctrine is an affirmative defense that is meant to protect a junior user who “invested time and resources into building a business” with the mark in contention. *Id.* The court reasoned that if a junior user has knowledge of a mark and the associated goodwill already built around the mark, then they are not choosing to use that mark in good faith because they are aware that they are infringing on another user’s goodwill. *Id.* In addition to benefiting from the mark’s associated goodwill, the junior user is aware that they are also preventing the senior user from potentially doing business in the new market where the junior user is using the mark. *Id.*

<sup>89</sup> See *infra* notes 91–102 and accompanying text.

of Appeals, or loosely, as in the Fifth and Tenth Circuit Courts of Appeals; as such, courts should analyze the policy goals underlying trademark law and apply the interpretation that best fits these goals.<sup>90</sup>

Trademark law serves two major policy aims at tension with one another: preventing customer confusion between products and brands, and protecting the trademark owner’s goodwill.<sup>91</sup> When considering the effects of trademark infringement on customer perception, the junior user’s knowledge of a certain mark is indicative of both the junior user’s intent and customers’ perceptions.<sup>92</sup> If the junior user knew that a senior business already used the mark, that knowledge usually suggests that the senior user’s reputation had already entered the market; thus, any use of a similar mark would be an infringement on that senior user’s goodwill, and would be likely to cause confusion between the two brands.<sup>93</sup> This is because if the junior user was aware of the mark, but used it anyway, then the junior user likely intended to prevent the senior user from entering the market.<sup>94</sup> At the very least, junior users understand that, due to their own use of a mark, the senior user would experience difficulty if they chose to enter the remote market.<sup>95</sup> This knowledge is sufficient to infringe on the senior user’s goodwill, and thus knowledge by itself necessarily destroys good faith.<sup>96</sup>

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<sup>90</sup> See *infra* notes 91–102 and accompanying text. See generally *United States Drug Co. v. Theodore Rectanus Co.*, 248 U.S. 90 (1918) (providing no explanation or analysis of “good faith”); *Hanover Star Milling Co. v. Metcalf*, 240 U.S. 403 (1916) (providing no explanation or analysis of “good faith”).

<sup>91</sup> See *Hanover*, 240 U.S. at 414 (stating that trademark rights are for the protection of goodwill); Chad J. Doellinger, *A New Theory of Trademarks*, 111 PENN ST. L. REV. 823, 825 (2007) (quoting *Mishakawa Rubber & Woolen Mfg. Co. v. S.S. Kresge Co.*, 316 U.S. 203, 205 (1942)) (“Trademark law was thus intended to protect the goodwill of the tradesperson and, in turn, protect the consumer from being deceived.”). Trademarks distinguish products, influencing the consumer’s decision on which product to select. Doellinger, *supra*, at 825. Trademark owners exploit this brand recognition by building a reputation around a certain product in the hopes of inducing more consumers into buying that product. *Id.* Trademark laws aim to protect the consumer from being misled when expecting to buy from a certain brand associated with a mark, and to protect the seller from losing business and tarnishing their reputation because of a similar mark in use by a competitor. *Id.*

<sup>92</sup> MCCARTHY, *supra* note 1, § 26:12. If a junior user has knowledge of the mark’s prior use, the knowledge could support the presumption that the junior user acted out of bad faith because they wanted to cause consumer confusion. *Id.*

<sup>93</sup> See *id.* (“[K]nowledge may be evidence that the senior user’s reputation had in fact entered the territory or else how could the junior user have knowledge and its customers did not?”).

<sup>94</sup> See *id.* (positing that even if customers in the market did not know of the senior user’s trademark, the junior user must have wanted to prevent the senior user from expanding into that market if they had knowledge of the mark and used it anyway).

<sup>95</sup> See *id.* (“[A]lthough customers in the territory did not yet know of the senior user’s mark, the junior user with knowledge must have intended to foreclose or blockade this territory from the senior user’s expansion, as the Court in *Tea Rose* inferred in its ‘design inimical’ dictum . . .”).

<sup>96</sup> See *id.* (“Proof of the junior user’s knowledge could be viewed as establishing a presumption that the junior user must have intended to cause customer confusion and that such confusion did in fact occur.”).



Allowing knowledge to be one factor in a multi-factor test to determine good faith also defeats the purpose of an affirmative defense.<sup>97</sup> The *Tea Rose-Rectanus* doctrine is an affirmative defense in an action for trademark infringement; the burden is on the defendant to provide evidence of good faith.<sup>98</sup> But if knowledge alone is insufficient to destroy good faith, the *plaintiff* shoulders the burden to provide evidence of the defendant's bad faith intent.<sup>99</sup>

Finally, knowledge should be dispositive of good faith, rather than indicative of it, to allow parity between federal statutory law and common law.<sup>100</sup> Federal trademark registrations confer constructive notice of the trademark owner's claim to the mark, and no good faith defense exists for a junior user who infringed on a federally registered mark.<sup>101</sup> If federal defendants cannot invoke the defense and continue to use the mark because of this constructive notice, state defendants who had actual knowledge of the mark should also be enjoined from infringing on the mark and on the senior user's goodwill.<sup>102</sup>

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<sup>97</sup> Cf. *GTE Corp. v. Williams*, 904 F.2d 536, 541 (10th Cir. 1990) (holding that "mere knowledge" is not enough to determine bad faith; rather, the focus of a good faith inquiry should be whether the junior user intended to benefit off of the senior user's goodwill), with *C.P. Interests, Inc. v. Cal. Pools, Inc.*, 238 F.3d 690, 700 (5th Cir. 2001) (holding that Fifth Circuit precedent required knowledge of prior use to be only one factor in determining good faith). An affirmative defense is a defense that will negate liability in both civil and criminal cases; the burden is on the defendant to prove the defense. See FED. R. CIV. P. 8(c) (outlining the rules for affirmative defenses).

<sup>98</sup> *Stone Creek, Inc. v. Omnia Italian Design, Inc. (Stone Creek IV)*, 875 F.3d 426, 429 (9th Cir. 2017) (explaining that the *Tea Rose-Rectanus* doctrine is separate from a trademark infringement claim and is an affirmative defense that the defendant must prove).

<sup>99</sup> See *id.* (explaining that the defendant must prove the defense).

<sup>100</sup> See *id.* at 439 ("The knowledge standard also better comports with the Lanham Act."). Because the Lanham Act governs a matter that courts previously decided through common law, Congress must have been familiar with the common law tradition and "intended to retain the substance of the common law." 73 AM. JUR. 2D *Statutes* § 92 (2019); see MCCARTHY, *supra* note 1, § 5:4 (discussing the legislative history of the Lanham Act).

<sup>101</sup> 15 U.S.C. § 1115(b)(5) (2012).

<sup>102</sup> See *id.* (stating that registration of a trademark on the principal register is evidence of an exclusive right to use the trademark); *Stone Creek IV*, 875 F.3d at 439 ("If constructive notice is sufficient to defeat good faith, it follows that actual notice should be enough too."). Other Lanham Act affirmative defenses include descriptive fair use, nominative fair use, expressive use, genericism, and abandonment. 11 U.S.C. § 1115(b)(5); see *KP Permanent Makeup, Inc. v. Lasting Impression I, Inc.*, 543 U.S. 111, 124 (2004) (explaining descriptive fair use); *Princeton Vanguard, LLC v. Frito-Lay N. Am., Inc.*, 786 F.3d 960, 965 (Fed. Cir. 2015) (explaining genericism); *Toyota Motor Sales, U.S.A., Inc. v. Tabari*, 610 F.3d 1171, 1175 (9th Cir. 2010) (explaining nominative fair use); *ITC Ltd. v. Punchgini, Inc.*, 482 F.3d 135, 147 (2d Cir. 2007) (explaining abandonment); *Rogers v. Grimaldi*, 875 F.2d 994, 999 (2d Cir. 1989) (explaining expressive use). Under 15 U.S.C. § 1115(b)(4), a defendant may assert the defense of descriptive fair use if the owner of a trademark attempts to prevent the defendant from using the terms included in the mark for their ordinary descriptive meaning. 15 U.S.C. § 1115(b)(4); see *KP Permanent Makeup*, 543 U.S. at 124 (holding that, in raising the descriptive fair use defense, the defendant does not have the burden of negating likelihood of confusion). Under the nominative fair use affirmative defense, the defendant typically argues that it used the plaintiff's trademark to refer to the plaintiff's goods or services. *Tabari*, 610 F.3d at 1175–76 (defining the nominative fair use affirmative defense). When parties raise this defense, courts must determine whether (1) the product was identifiable without use of the mark; (2) the defendant used the mark more than

## CONCLUSION

The Ninth Circuit correctly decided *Stone Creek, Inc. v. Omnia Italian Design, Inc.* in its interpretation of the *Tea Rose-Rectanus* “good faith” element when it held that a junior user of a mark who has knowledge of a senior user’s use cannot assert a good faith defense. The Ninth Circuit’s analysis of the “good faith” element reinforces trademark law’s ultimate policy goals of preventing unfair competition and consumer confusion regarding marks and brands, in part by protecting the senior user’s goodwill. The court’s strict interpretation of good faith brings the common law *Tea Rose-Rectanus* doctrine in parity with the Lanham Act and appropriately places the burden of proof of knowledge, or lack thereof, on the defendant.

ROYA TABIBI

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necessary; or (3) the defendant falsely implied that the trademark owner endorsed them. *Id.* at 1175–76. Under the expressive use defense, the defendant typically argues that it used the mark in an expressive work, raising First Amendment concerns of free expression. *See Rogers*, 875 F.2d at 999 (describing the expressive use defense and the First Amendment concerns artistic titles raise). Such use of a mark is permissible unless: (1) the mark does not have “artistic relevance to the underlying work,” or (2) the use of the mark “explicitly misleads as to the source or the content of the work.” *Id.* Under a genericism defense, the defendant claims that the plaintiff’s mark is generic and federal registration cannot protect it. *Frito-Lay*, 786 F.3d at 965. Generic terms are “common descriptive names” and by nature are unable to identify a specific source of goods. *Id.* Under an abandonment defense, the defendant claims that the plaintiff stopped using the mark and did not intend to resume using it in the foreseeable future, allowing other actors to appropriate the mark. *Punchgini*, 482 F.3d at 147. The defendant must demonstrate: “(1) non-use of the mark by the legal owner, and (2) lack of intent by that owner to resume use of the mark in the reasonably foreseeable future.” *Id.*; *see* 15 U.S.C. § 1064 (explaining that abandonment is grounds for cancellation of a trademark registration).